

**REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE
AND THE COUNCIL ON GREATER LETABA MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I have audited the financial statements of the Greater Letaba Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), Division of Revenue Act of South Africa, 2011(Act No.06 of 2011) (DoRA) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Revenue

6. During 2011 I reported that included in other revenue is an amount of R1 744 000 disclosed in note 21 in respect of revenue from government grants and subsidies that overstated other revenue. Consequently my audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly.
7. I was unable to verify the accuracy of the licences and permit revenue stated at R3 061 805 disclosed in the financial statements. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy and completeness of revenue from licenses and permits.

8. There was no efficient system of control over revenue billings in respect of property rates on which I could rely on for the purpose of my audit. There were no satisfactory procedures that I could perform to obtain reasonable assurance that property rate revenue billings were properly accounted for due to incomplete valuation roll. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and accuracy of property rate revenue recognised at R6 920 579 and the valuation and completeness of its related receivable balance.

Consumer debtors

9. During 2011 I was unable to obtain sufficient appropriate audit evidence for the corresponding figure for the impairment of the accounts receivable of R33 846 593 disclosed in note 3 to the financial statements. Consequently my audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. As management did not take any steps to correct this figure, I was unable to confirm the accounts receivable by alternative means. My opinion on the current period's financial statements is thus also modified because of the possible effect of this matter on the comparability of the current period's figures.

Property, plant and equipment (PPE)

10. The property, plant and equipment balance (PPE) of R237 353 951, as disclosed in note 7 to the financial statements revealed the following material errors when reconciled to the underlying fixed asset register and the financial statements:
 - Unreconciled difference of R2 599 632 between the Fixed Asset Register and the balance of PPE (Prior year fair value adjustment) as disclosed in the financial statements. The municipality imposed a limitation on the scope of my work, as I was not given supporting documentation for the reconciling difference between the fixed asset register and the financial statements. The municipality's records did not permit the application of alternative audit procedures.
 - I was unable to verify the correctness of the adjustment made to the opening balance of property, plant and equipment in note 7 to the financial statements, stated at the net value of R999 796, relating to the change in accounting policy. There were differences noted between the fixed asset register and the financial statements. The municipality's records did not permit the application of alternative audit procedures.
 - Due to the nature of the above, I could not obtain sufficient appropriate audit evidence as to the existence, valuation, completeness and rights of the property, plant and equipment balance and the related accumulated depreciation and depreciation balances as disclosed in the financial statements.

Trade and other payables

11. During 2011 I was unable to obtain sufficient appropriate audit evidence for the corresponding figure for accounts payable of R6 258 304. The municipality provides water services for the District municipality and included in trade and other payables is the inclusion in the prior year's increase in provision for doubtful debt, in respect of the water and sanitation which is a function of the District. Consequently my audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. As management did not take any steps to correct this figure, I was unable to confirm the trade and other payables by alternative means. My opinion on the current period's financial statements is thus also modified because of the possible effect of this matter on the comparability of the current period's figures.
12. The trade and other payables balance of R36 158 915 as disclosed in note 11 to the financial statements, includes an amount of R19 721 830 relating to the District. The accounting records of the municipality reflect the District as a net payable, however, taking into account the amount of expenses incurred and revenue recognised, with the related statement of financial position accounts, incurred on behalf the District, the net

effect of the District should be a receivable of the municipality. Consequently payables has been overstated and receivables understated by the same amount.

Irregular and fruitless and wasteful expenditure

13. The municipality incurred irregular expenditure amounting to R8 248 893 as the expenditure was incurred in contravention of Supply Chain Management regulations and the MFMA.
14. The municipality incurred fruitless and wasteful expenditure amounting to R22 341 which was incurred as a result of housing subsidy that was overpaid to officials. The amount was not disclosed in note 40 of the financial statements as required by section 125(2)(d) of the MFMA. Consequently, I could not satisfy myself as to the completeness of the fruitless and wasteful expenditure in the financial statements.

Cash flow statement

15. Presentation of a cash flow statement, summarising the municipality's operating, investing and financing activities, is required by GRAP 2, Cash Flow Statements. The cash flows from operating activities as per the cash flow statement has not been inaccurately totalled. The Cash receipts from rate payers, government and other deducted from the cash paid to suppliers does not agree to the balance of cash generated from operations.

Further, I recomputed the cash flows from operating activities and found material differences amounting to R4 061 028. Consequently, I could not satisfy myself as to accuracy and completeness of the net cash flows from operating activities.

Opinion

16. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Greater Letaba Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

17. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

18. With reference to note 38 to the financial statements, the municipality is a defendant in several lawsuits amounting R716 190. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Material losses

19. As disclosed in Note 34.6 to the financial statements, the municipality suffered a significant loss of 8 234 211 units of electricity with a value of R1 133 687 during the year under review.

Material Impairments

20. As disclosed in Note 34.6 to the financial statements, the municipality had receivables totalling R24 077 710 at 30 June 2012, which had been outstanding. Debts amounting to R26 958 907 were provided for as doubtful as receivables were outstanding for more than 12 months.

Restatement of corresponding figures

21. As disclosed in note 31 to the financial statements, the corresponding figures for the year ended 30 June 2011 have been restated as a result of an error discovered during 2012 in the financial statements of municipality at, and for the year ended 30 June 2011.

Additional matter

22. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

23. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

24. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

25. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages XX to XX of the annual report.
26. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.
27. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
28. The material findings are as follows concerning the usefulness and reliability of the Information

Usefulness of information

Measurability

Performance targets not time bound

29. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that time period or deadline for delivery be specified. The total of 34% of the targets relevant to the Basic Service Delivery and Infrastructure Development (BSDID) and Local Economic Development were not selected were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirement of the National Treasury FMPPI but chose not to apply the principles contained in FMPPI.

Performance targets not well defined

30. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A

total of 21% of the indicators relevant to the Basic Service Delivery and Infrastructure Development and Local Economic Development were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirement of the National Treasury FMPPI but chose not to apply the principles contained in FMPPI.

Additional matter

31. I draw attention to the matter below. My conclusion is not modified in respect of this matter:

Achievement of planned targets

32. Of the total number of planned Basic Service and Local Economic Development, only 35 targets were achieved during the year under review. This represents 51% of total planned targets that were not achieved during the year under review. This was as a result of delays in the supply chain management processes in advertising and awarding tenders.

Compliance with laws and regulations

33. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Budget

34. Quarterly reports were not submitted to the council on the implementation of the budget and/or financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
35. Monthly budget statements were not submitted to the relevant provincial treasury, as required by section 71(1) of the MFMA.

Annual financial statements, performance and annual report

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a qualified opinion.
37. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan as required by section 46 of the Municipal Systems Act (MSA).
38. The accounting officer did not make the 2010-11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
39. The municipal council did not adopt an oversight report, containing comments on the annual report, within two months from the date on which the 2010-11 annual report was tabled, as required by section 129(1) of the MFMA.
40. The accounting officer did not make public the council's oversight report on the 2010-11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Audit committee

41. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.

42. The audit committee did not advise the accounting officer on matters relating to performance management, compliance with the MFMA, DoRA as required by section 166(2)(a), 166(2)(a)(iv) 166(2)(a)(vii) of the MFMA.
43. The audit committee did not review the municipality's performance management system and/or make recommendations to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(ii).
44. The audit committee did not submit at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii).
45. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

Internal audit

46. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and/or report to the audit committee on matters relating to internal control.
47. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.
48. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b) [(i) / (ii) / (iii)].
49. The internal audit unit did not audit the performance measurements on a continuous basis and/or submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(a) and 14(1)(c).

Procurement and contract management

50. Contracts were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
51. Construction contracts were awarded to contractors that did not qualify for the contract, in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
52. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
53. Awards were made to providers whose directors are persons in the service of other state institutions in contravention of the requirements of Supply Chain Management (SCM) regulation 44. Furthermore, the providers failed to declare that they are in the service of the state as required by SCM regulation 13(c).
54. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2) (e) issued in terms of the Municipal Systems Act.

Expenditure management

55. The accounting officer did not take reasonable steps to prevent irregular expenditure and fruitless and irregular, as required by section 62(1)(d) of the MFMA.

Revenue management

56. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, as required by section 64(2)(e) of the MFMA.

Asset management

57. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
58. An effective system of internal control for assets including an asset register was not in place, as required by section 63(2)(c) and 96(2)(b) of the MFMA.

Internal control

59. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual and the findings on compliance with laws and regulations included in this report.

Leadership

60. The accounting officer did not review the financial statements and the report on predetermined objectives prior to submission for audit and therefore errors were not identified and corrected

Financial and performance management

61. The municipality did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
62. The financial statements submitted were subjected to material adjustments. This was mainly due to the excessive reliance on the auditors to identify misstatements and assist in the correction and staff members not fully understanding the requirements of the financial reporting framework and accounting standards.

Governance

63. The accounting officer did not ensure that management adequately implemented the recommendations of the prior year internal and external audit reports to adequately address the internal control deficiencies and recommends corrective action effectively.

Polokwane

30 November 2012



Auditing to build public confidence